

Organisational Culture and the Adoption of New Public-Management Practices

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This study provides insights into the levels of adoption and success of New Public Management practices, reflected in the degree of innovative accounting practices and cultures. The analysis draws upon two in-depth empirical investigations. The results provide empirical evidence to support a two-way interaction between management orientation to adopting the new accounting methods and organisational innovative changes. The success and failure could be characterised as a fragile construction that turns on the strength of diverse ties connecting many heterogeneous elements. The meaning of the subcultures and the externally driven change process are discussed in the context of Scandinavian public management.

Key words: accounting innovations, culture, interventionist case study

Introduction

This study provides an insight into the process of change currently taking place in the financial management of the public sector (see e.g., Osbourne and Gäbler 1992; Hood 1995). In connection with these changes, financial matters and accounting (see also Olson, Guthrie, and Humphrey 1998) have assumed far greater importance following a period of managerialisation and the emergence of New Public Management practices. A new framework of public-accountancy inscription (e.g., Ezzamel and Hoskin 2002) is being adopted. The study also contributes to the growing body of literature on the enlarged organisational role of the accountancy profession as an aspect of knowledge management (see e.g., Granlund and Lukka 1998; Burns and Baldvinsdottir 2005). In essence, the culture of public organisations has gradually changed: whereas the emphasis used to be on delivering professional services in a professional manner, it is now on increasing revenues and profitability (Wyatt 2004).

The financial changes in the public sector have shifted the image of public accountancy from that of a mere 'bean counter' to a service-oriented partner (e.g., Granlund and Lukka 1998). Accountancy no longer serves as a mere answering machine. It is increasingly oper-

ating as a 'learning machine' by offering enquiry facilities, sensitivity analyses and what-if analysis, as a 'dialogue machine' by providing relevant information processing – including consultative processes, and as an 'idea machine' providing multiple streams of thought and experience-sharing in order to encourage creativeness and creative cultures (e.g., Ezzamel and Bourn 1990).

While the notion of organisational culture is well developed in the literature, as a complex, multi-level phenomenon it has complicated research studies (Glick 1985; Chia and Koh 2007; Jenkins et al., 2008). Culture is often understood to comprise shared basic assumptions, customs, myths and ceremonies that communicate underlying beliefs, and is evidenced by values reflected in individual and group behaviours (Reigle 2001). In addition, visible symbols of culture represent integration into the organisation. For example, standards of dress, membership of professional organisations, and expectations regarding working hours and workplace behaviour all communicate an organisation's culture and its expectations regarding behaviour.

Culture in this study is seen both as an external phenomenon that is not susceptible to management-induced change and as an internal variable that managers can manage and therefore change (Smirich 1983). The on-going changes in the public sector set the restrictive framework for the behaviour of the developing public organisations, which emerged, on the other hand, from reflections on practices.

Organisations use formal and informal mechanisms to help them to achieve their objectives, including goals such as profitability and growth. These, in turn, are incorporated into their governance practices. These practices are developed within the organisation's culture, which is a set of beliefs and values that is more informal, yet at the same time more pervasive than policies and procedures (e.g., Jenkins et al. 2008). Dimensions of the organisational culture act as informal controls (Flamholtz 1983) that influence the design and use of innovative management practices.

As findings from the private sector indicate (e.g., Hood 1995; Hermalin 2005), the question in the public sector, too, is about getting new ideas in terms of the enlarged role of accounting to fit into the existing codified public-accounting discourse. Further, the literature on organisational cultures suggesting the presence of a relationship between the culture and the adoption of new accounting methods mainly comprises studies conducted in the private sector (e.g., van Helden, van der Meer-Kooistra, and Schapens 2001; Perera, McKinnon, and Harrison 2003; Henri 2006): the public sector has attracted much less research attention (e.g., Lapsley and Pallot 2000;

Chia and Koh 2007). Consequently, there is relatively little empirical evidence concerning cultures within public firms, or how they are reflected in the adoption of new accounting practices (see also, e.g., Jenkins et al. 2008).

This study provides insights into the levels of adoption and success of New Public Management practices, reflected in the degree of innovative accounting practices and cultures, and in the commitment to service orientation, effectiveness and flexibility in the autonomous government agencies operating within a managerialist framework. Two dimensions of organisational culture – the climate of innovation on the individual level and the management's value orientation towards innovation on the organisational level (e.g., Quinn and Kimberly 1984) – are examined and analysed as background factors for NPM practices. As Reichers and Schneider (1990), for instance, suggested, innovation-oriented practices are based upon beliefs that are shared organisation-wide, while the psychological climate of organisational innovation depends on what the individual senses in and about the organisational environment. The study outlines a conceptual framework that relates the proposed dimensions of organisational culture in different contexts, and compares and evaluates their effects on the adoption of NPM methods.

A Call for Innovative Public Statutes and Accountabilities

Overall, accounting has assumed far greater importance in the public sector following the period of managerialisation and the emergence of New Public Management practices. As in the private sector, paradigms of ownership and accountability (see Roberts and Scapens 1985; Gray and Jenkins 1993; Sinclair 1995), along with the pursuit of stake- or even shareholder value (e.g., Gray and Jenkins 1993; Hood 1995; Parker and Gould, 1999) have been introduced. These trends have been fuelled by the governance reforms according to which steering-policy decisions through governance and accountability mechanisms would supersede direct service delivery (e.g., Hood 1995; Hermalin 2005).

To put it more succinctly, new goals have been created as a result of the reforms: for instance, a greater focus on efficiency, clearly distinguished responsibilities for the political and managerial levels of the organisations, a greater focus on effectiveness and a greater external orientation, and the realisation of business-like internal relations. As Grandori (1987) and Chia and Koh (2007) argued, for example, there is an evident performance gap, i.e. a divergence between an organisation's original goals and the new goals that are created

as a result of the reforms. The New Public Management methods are deemed innovative practices in the public sector (Chia and Koh 2007), demanding compatibility between the needs and values of the emerging cultures.

Along with the challenges related to effectiveness and efficiency, the different kinds of emerging interdependencies reflected in New Public Management, both within the organisation and between it and the communities in which it operates, have produced new perceptions of public-sector accountability (see e.g., Sinclair 1995): it is both complex and contestable. As evidence of the complexities of public government and its accompanying multifaceted accountability dimensions and relationships, public servants are considered accountable not only to their immediate supervisors but also to a range of external institutions, members of the public, and even to their own professional consciences (Sinclair 1995; Parker and Gould 1999).

New public accountancy conveys new accounting statutes providing the regulations covering the publication of financial information with a 'frame' within which information is generated and interpreted among interested parties (e.g., Holland 1998; Gigler and Hemmer 1998; Hookana-Turunen 1999). However, it is quite commonly acknowledged among both providers and users that, so far, existing regulations do not cover public-steered organisations (e.g., Pizzini 2006; Robbins 2007). Within the current reporting circumstances the scope of voluntary disclosure is quite broad, which is probably a contributory factor to the emerging innovations. On the other hand, from an autopoietic perspective, the penetration of some of the power of private-sector financial accounting into public-sector organisations most probably stems from its self-referential qualities. As Seal (2001) argues, for instance, accrual and historical cost systems of accounting, which are historically and geographically the most robust part of financial accounting, are also the most self-referential, self-productive and recursive part of the whole accounting and governance system.

Research Method

The starting point of this study was a consultation request from a Finnish local government (see also Hookana 2007). The researcher was initially asked to help to clarify the drawing up and use of accountancy information within the inter-municipal organisation, and to put forward suggestions for its development during an on-going consulting period starting in November 2004. Later, in the autumn of 2007, she was invited to another inter-municipal organisation of

the same Finnish local government. The task this time was to enhance the use of accounting information while strengthening the entrepreneurial attitude to service production. Following on from this, she has purposefully intervened in the target company and, as a result, has in part created its reality (see e.g., Evered and Louis 1981; Yin 1984). The aim of this research was to combine participation in practical developmental work with making a theoretical contribution.

Overall, the study is methodologically action-oriented. The analysis aims at furthering understanding and interpretation of evolving accounting practices (see e.g., Scapens 2004). The findings from the first case organisation, the primary case study, are described initially in the light of individual interviews conducted with different local-government participants, and financial-data producers and users (a total of approximately 60 hours worth of material), and secondly on the basis of various workshops (32 altogether attended by between 10 and 30 providers and users of financial data), each of which lasted for between two and four hours. These workshops involved interactive discussion between the researcher and the participants about problems of accountability and governance (see also Hookana 2007). The empirical material from the secondary case study includes the interviews conducted with the top management and local-government participants as well as the five workshops for the service producers (attended by between five and 10 providers), each of which lasted for about one-and-a-half hours.

The research methods used facilitated discovery of the tacit knowledge possessed by each individual on the one hand, and on the other hand provided occasions on which to address the interfaces between the networked parties and to externalise and disseminate financial knowledge related to the emerging collaboration (see e.g., Nonaka and Takeuchi 1995). The researcher also analysed the case organisations' written accounting material, and carried out direct observation during the periods of time spent in them.

By firmly situating her investigation of the case company in its context, and by connecting it to previous empirical and theoretical research, the author aims to produce findings that extend beyond the case organisation in terms of theoretical scope (see e.g., Lukka and Kasanen 1995; Eisenhardt and Graebner 2007), the problems of which are universal. Of course, the rhetoric is to be judged by the readers. In addition, most instances of accounting discourse are produced and understood in a specialised context (Llewellyn and Milne 2007).

However, the results should be viewed through the lenses of Nordic culture (e.g., Bogt and Van Helden 2005). International comparative research could come up with additional arguments for the influence of societal circumstances on the effectiveness of accounting systems. The Nordic culture emphasises the striving for compromise and consensus, which may increase societal support for decisions and their effective implementation.

Chenhall and Euske (2007) suggest that previous literature on the role of accounting systems in organisational change could be divided into the following four different approaches: firstly, the prescriptive approach; secondly, an approach taking into consideration the contextual and social issues; thirdly, an approach stressing diffuse and integral change across the organisation; and fourthly, an approach stressing employee commitment to change. The study at hand falls within the second and third approaches. It highlights the significance of the internal organisational aspects and the integration within and across a networked organisation, the idea being to manage the interdependencies with a view to diffusing and integrating the change (e.g., Ezzamel and Bourn 1990; Briers and Chua 2001; Huy 2001; Norreklit 2003). In addition, the change charted in the study is strikingly reflected in the change in orientation of the organisation from upholding traditional values to fostering a more economic approach based on commercial principles involving efficiency, quality, and a customer focus (e.g., Dent 1991; Kurunmäki 1999; Henri 2006).

The Interventionist Case Studies

THE PRIMARY CASE: THE EMERGENCY SERVICES

Despite the recommendations made by the government and the Finnish Ministry of the Interior, voluntary cooperation between the municipalities within the fire and emergency services did not materialise, and consequently the regional organisations were brought under the rule of law. Alongside the relevant laws, the case operation of the Emergency Services of Satakunta is based upon a co-operation agreement between the municipalities, which defines the inter-municipal organisational model, the division of costs and the governance structure. The objective of the regional emergency services is to coordinate, guide and control the inter-municipal provision of services, and to offer joint services that take into account the regional characteristics and needs.

The Emergency Services of Satakunta cover all the 26 municipali-

ties of the region with its ca. 230,000 inhabitants. The annual budget totals approximately €16.5m. The Services operate in 51 locations with around 250 full-time personnel. There are also 1,200 volunteers in the 50 emergency units of the volunteer fire brigade.

To put it succinctly, the fundamental and primary problem related to governance and accountabilities in the case organisation could be expressed as an insufficient establishment of ties between the network parties. Unclear ties accrued from the separateness implied between both the different municipalities and the professions (service providers and accountancy personnel), and further, from breaks in the flow of information.

THE SECONDARY CASE: THE ACCOUNTING SERVICES

The secondary case organisation, which had been under development and analysis for about six months, takes care of the financial services, especially bookkeeping and salary payments, for two municipalities and two inter-municipal (six owner-municipalities) federations of public-health services in the Satakunta region. The annual budget totals approximately €3m. The Services operate in one location with around 45 full-time personnel.

These accounting services are voluntarily arranged within the common organisation on the initiative of the participating municipalities. The organisation had been operating as a limited joint stock company for one-and-a-half years. With its current owners the company is in a monopoly position, but the aim is to enlarge the marketing area outside of the owner-municipalities, after which it will have to take a bigger part in the increasing competition with private-sector companies.

THE COMPARISON OF THE CASE ORGANISATIONS

The first months of the research process revealed the deficiencies in the team organisation and in the data flowing among the teams, as well as the lack of a view of the totality of the previous municipality-focused services. In addition, conversation with the owners had its drawbacks because of the lack of external disclosure. In sum, in this case organisation it was a question of improving the accountancy of a public-sector accounting-services company with a view to fostering an entrepreneurial spirit and culture. The team managers who were accustomed to accounting matters and the managing director had the key roles in the organisation rather than the accounting personnel. The conversation between the different 'professions' could be considered more balanced than in the primary case.

TABLE 1 Old and new ways of thinking and acting in the case organisations

Functional structure	Process and team structure
Annual reports	Interim and annual reports
Separate information on services and financial matters	Integrated information on services and financial matters
Autonomy of the service professionals	Financial- and customer-oriented co-operation
Historical and aggregate accounting information	Forward-looking and detailed accounting information
Lack of financial visibility	Financial visibility; boards, work groups, statistical and pictorial presentations
Rule-oriented	Experimenting, tolerance of variety
Municipality-focused	Network- and owner-focused

In sum, the case organisations are quite similar in terms of the fundamental nature of the change that occurred and was carried out in them. The Emergency Services is more advanced with its defined vision, operational targets and measures for building on achievements, which could be partly attributed to its longer existence and previous experience of the change process.

However, a detailed comparison of the case studies revealed three main distinctions. Firstly, the development process in the primary case was driven to a larger extent by the co-operation between the top management, the accounting manager and the district chief fire officers. The drawbacks in the horizontal and vertical information flow and the team management in the secondary case could be connected to its highly entrepreneurial managing director, who was nevertheless operating in rather an independent way. The common target of the inter-municipal organisation was not clear among the employees – and the managing director did not find it necessary to explain it, either.

Secondly, the local differences were appreciated in both organisations, but they were most probably given more attention in the primary case. The fire districts have rather an autonomous role, which is supported by the municipalities in that they keep strictly to their distinct emergency service levels. This difference could also be interpreted as being to the advantage of the secondary case, leading to a more straightforward governance model.

Thirdly, in some organisations accounting is inherently involved in the work rituals: financial achievement is celebrated, and budgets are squeezed, pored over and revered. In others it is an incidental function, perhaps existing as a practice but with no particu-

lar significance (e.g., Dent 1991). The emergency services comprise a very formal organisation. The personnel in their official standard uniforms describe the management process in bureaucratic analogies, talking of 'chains-of-command' and 'good old servants of the public good'. There is much deference to authority. In contrast, more informal customs are clearly appreciated in the secondary case. To some extent the more formal governance mode could have facilitated the change in the municipal-owned organisations in that it at least partly blocked manifestations of resistance and promoted a common innovative atmosphere. In addition, the process is based on the law, which also makes the change process more externally driven.

In terms of financial regulation, in Finland The Accounting Act and The Local Government Act generally regulate the financial statements issued by the municipalities. According to Kallio et al. (2005), there have been practical problems in implementing the municipal bookkeeping reform of 1995, some of which arose because the guidelines were either unclear or not available on time. However, in the course of the first few years the problems decreased and the practices of budgeting, accounting and bookkeeping were changed so as to resemble those used in the private sector.

Culture-Based Innovations in Public Accountancy

Each interventionist episode (in the form of interviews and workshops) involved a fairly small incremental step in accommodating the old municipal-focused culture. Despite the few steps backwards the totality of the cultural circumstances transformed, little by little.

New public-management-related accounting penetrated the underlying values, knowledge and beliefs (Dent 1991; Ezzamel and Hoskin 2002; Moullin et al. 2007). The case studies showed how accounting may be vested with new statutes and different meanings in local cultures. It can penetrate organisational settings to constitute financial-oriented cultural knowledge in particular ways, to create particular effectiveness-based rationalities for organisational action, and in turn to lead to new forms of organisation and new patterns of action and time. The shift in knowledge that accounting helps to construct, from perceiving the municipalities to perceiving customers to be served, and the shift towards relational efficiency, are fundamental. These aspects interpenetrated the operation and management of the case organisations. According to the new knowledge the municipal emergency and accounting services are only production structures, subservient to the emerging 'markets' of customers and owners.

The changing knowledge also redefined the appropriate form of action. In the new situation activities are judged on their consequences to the wholeness of the services produced under the subscription of the owners and customers: adding comfort, reliability, speed and customer service where the returns outweigh the cost. Action is also judged against a different concept of time: it is now constrained in terms of planning and reporting cycles, but lengthened in terms of maintaining the future viability of the network.

Accounting is a kind of 'boundary object' (Star and Griesemer 1989) that is both flexible enough to adapt to the local needs and constraints of the several parties employing it, yet robust enough to maintain a common identity across sites. Accounting systems may make things possible, but accountancy also makes impossible things we have grown accustomed to taking for granted (e.g., Dechow and Mouritsen 2005). The new systems of statutes as 'data repositories' and the metaphors conveyed by them were a key resource (see also, Ezzamel, Lilley, and Willmott 2004) in the translation of established practices. The change in management systems was facilitated by financial and non-financial written material that expressed and promoted conditions of accelerating transformation.

The new statutes were of significance in terms of understanding how an individual felt capable of enacting the new commercial agenda (e.g., Ezzamel, Lilley, and Willmott 2004). The new progressive and entrepreneurial statutes were used as justifying devices in attracting the levels of investment necessary to reorient the behaviour. The new inscribed representations of the publicly desired new regime of truth rationalised the transformation of attitudes to the new customer- and finance-oriented contexts. On the other hand, the new process-driven and productive writings helped the change agents in terms of inviting them to participate in planning and organising their work as well as in monitoring their own achievements.

The new settings were reflected in written communications that were distributed and made use of widely, and which were attributed greater weight and permanency than previous and non-transparent oral modes of communication. The greater visibility of the new agents, structures and processes enabled service management to act at a distance (Ezzamel, Lilley, and Willmott 2004). New metaphors and beliefs were transformed to facilitate control at a distance with accounting as a sufficiently common language (e.g., Robson 1992; Kirk and Mouritsen 1996).

The accounting statutes translated from the local settings of the

merged entity (see, e.g., Cohen et al. 1993) did not totally mirror the original knowledge (e.g., Choi and Eriksson 2001). In any case, knowledge is embedded in relationships between actors as social capital, which consists of obligations, expectations, social norms, trust, and information channels (Coleman 1988; Cohen and Levinthal 1990; Morgan and Ogbonna 2008). It is embedded in the habits and routines that shape new knowledge (Burns 2000; Scapens 2005). On the cultural level, the formation of the accounting statutes was a bi-directional process in which the accounting and service personnel formed the common representations through interaction. Accounting logic is not always – or at best – the domain of qualified accountants (Broadbent, Gill, and Laughlin 2008).

This may hide one of the power sources of the accounting statutes: while formal accounting systems provide the necessary common governance framework and an important and regular mechanism through which accountability can be discharged (Robbins 2007), personal relationships and networks allow the local circumstances to be taken into account and a trusting relationship with the local management to be developed. Accordingly, trust on the headquarters level enables actions that allow more autonomy and discretion to the local subsidiaries, i.e., reliance on accounting control (Merchant 1985). The common strategy is allowed to emerge while at the same time the transformed knowledge is applied to the local conditions (e.g., Morgan and Ogbonna 2008).

However, there were also clear failures in adopting the new statutes. In the context of the changing and contradictory expectations of the owners, some research interventions remained only proposals. Many of the interviewees expressed the desire for a reduction in political meddling in public-service production, which only resulted in disjointed policies. In addition, accounting-related innovations were allowed to fail in order to balance the stakeholders' different interests. Some of them were re-presented in different concepts (for instance, the balanced scorecard in the primary case). The legitimising of formal discussion forums filled gaps in communication between the various hierarchical and vertical levels in the organisation about the content of the planning and control documents (De Bruijn and Van Helden 2006; see also, Rantanen et al. 2007).

Further, as Dyer and Hatch (2006) argue, local differences may persist because inter-organisational routines and policies act as barriers to the transfer of knowledge. In addition, some of the unit resources and capabilities are relation-specific and are not easily transferable to other partners in the network. Specifically, the ma-

major barriers to intra-firm transfers of knowledge and best practices included a lack of credibility on the part of the source of knowledge, and causal ambiguity due to its complexity (see, e.g. Szulanski 1996). In addition, as Dyer and Hatch (2006) note, an existing, rigid decision-making process makes the adoption of the new process difficult and costly.

Overall, however, the drawbacks strengthened the change-oriented atmosphere. Change was brought about by a variety of actors (local, regional and national), each struggling to build stronger actor-networks of association that strengthened their own beliefs in the nature of the desired reality (e.g., Briers and Chua, 2001). It could be claimed that the model that worked was a hybrid of human and non-human elements, and it was made to succeed. The success and failure could be characterised as a fragile construction that turned on the strength of diverse ties linking many heterogeneous elements. To the extent that the new accounting statutes held the local strings together, it would seem to have worked.

Much of the resistance to change in the context of new public management seems to stem from society's fixation with numbers (Power 2004; Broadbent, Gill, and Laughlin 2008), or it is in fact the generator of this mystique. A more important question is whether or not the professions are willing to make the incremental change that is required in order to address what is an important decision-making challenge (Robbins 2007; Rantanen et al. 2007; Broadbent, Gill, and Laughlin 2008; Morgan and Ogbonna 2008). For instance, it is claimed that the accounting system is quite inflexible in terms of developing new approaches to the changing understandings and institutional arrangements (e.g., Maddock and Morgan 1998; Robbins 2007). On the whole, the changing finance-related culture implies value shifts in the larger cultural environment, and has steadily exerted pressure on the professions to move towards new legitimacy bases: to accept the erosion of their power and allow the emergence of different kinds of power bases.

Conclusions

Essentially, culture establishes the parameters of acceptable and unacceptable behaviour, 'the truth and the knowledge of the organisation'. The culture of New Public Management in public organisations may have positive outcomes, such as the creation of social order and continuity, and of a communal identity and commitment, and the management of collective uncertainties (see also e.g., Trice and Beyer 1993). It appears to have produced wide agreement on

its 'representational faithfulness' and its ability to contribute as a boundary object (Briers and Chua 2001). The ability and willingness to change is based on the penetrating role of accountancy in forming a boundary system to connect the different parts of the network.

The results provide empirical evidence of two-way interaction between the orientedness of the management to adopt the new accounting methods and organisational innovative changes, and both the success and level of adoption of NPM in the public sector. The study gives insights into the success factors and pitfalls to be avoided in achieving the desired outcomes of NPM in organisations undergoing reforms, also reflected in the cultures. With the appropriate NPM practices in place, the public-sector agencies will have a broader repertoire of tools to help them generate more relevant information and therefore make better-informed decisions under the managerialism framework – based on new truths and knowledge.

The study has many implications. First, the decision to adopt innovative NPM practices should not belong solely to the specialists: the interaction effects of the cooperation between the accountancy staff and the service professionals, as well as the owner municipalities, should be considered (see also e.g., De Bruijn and Van Helden 2006). Concomitant changes in the various cultural dimensions are essential if the adopting organisation is to benefit from the success and level of such adoption. The importance of non-accountants, i.e. service specialists, is highlighted when the aim is to achieve effectiveness and efficiency targets. The non-accountants seemed to have a significant effect on the cultures of large firms by introducing a much more salient entrepreneurial and profit-driven approach to business (see also e.g., Wyatt 2004; Jenkins et al. 2008). In essence, culture lays the foundation for the ways in which employees interact and achieve targets (e.g., Covaleski et al. 1998). This depends on the adaptability of the different professions in moving beyond the boundaries of the attitudes that are traditional in the public sector.

Secondly, the interaction-related insights may help the organisational change agent or agents to better manage and position the adoption and success of an innovation. Communicating a firm's culture to clients and other third parties increases the likelihood that important relationships will be sustainable and productive (McAleese and Hargie 2004; Jenkins et al. 2008).

A complicating factor here is the potential for the emergence of subcultures within the organisations (Chow et al. 2002; McAleese and Hargie 2004). However, without denying the detrimental and protracted effects of reflection on network negotiations, the remain-

ing local practices most evidently strengthened the collaboration by securing the commitment of the remaining heterogeneous parties to new innovations.

To some extent, the more formal form of governance may have eased the change in the municipal-owned organisations in that it at least partly obscured the manifestations of resistance and promoted a common innovative atmosphere. The law-based introduction of the new statutes also helped. The need for new public management seems to be widely acknowledged, but the way of thinking could be supported by a more externally driven change in the cultural atmosphere.

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